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TAGS: [EAID](#) [KFPC](#) [KN](#) [KNNP](#) [KUNR](#) [PINR](#) [PREL](#) [UNDP](#)  
SUBJECT: USUN RECEIVES "SMOKING GUN" E-MAIL ON  
UNDP-DPRK/AMBASSADOR WALLACE SEEKS CLARIFICATION ON LETTERS  
RECEIVED FROM UNDP ON ACTIVITIES IN THE DPRK/UNDP INVITES  
USUN TO REVIEW AUDIT REPORTS IN PERSON.

REF: A. A.STATE 2744  
[B](#). B.USUN 2273  
[C](#). C.USUN 00004  
[D](#). D.USUN 00007

Classified By: Acting Permanent Representative Alejandro D. Wolff  
per reasons 1.4 (b) and (d)

1.(S) Summary. As a result of the various inquiries by USUN of UNDP leadership, a UNDP "whistleblower" approached USUN and delivered a number of documents that serve to demonstrate that UNDP knowingly violated its own rules to accommodate the DPRK's stated request for hard currency. Specifically, USUN has received a "smoking gun" e-mail from a senior UNDP officer (pls protect), which indicates that UNDP officials in New York and in Pyongyang have long been aware that hard currency transactions were on-going in the DPRK due to the DPRK Government's insistence on receiving hard currency. Comment: The e-mail indicates that the Government of the DPRK sought UNDP as a source to provide a steady and consistent flow of hard currency and that UNDP knowingly violated its own rules and regulations in acting and continuing to act in accordance with the requests of the DPRK Government. End Comment. See para 4 for text of e-mail.

2.(SBU) Per reftel D, on Friday January 5, 2007, following his letter to UNDP Administrator Dervis of December 22, Ambassador Wallace received late Friday evening three letters from UNDP and certain financial information regarding the UNDP program in the DPRK. Ambassador Wallace sought clarification from Mr. Dervis in a letter on January 8th. See para 9 for text of letter.

3.(SBU) In response to Ambassador Wallace's letter sent to Mr. Dervis on January 8th, Ambassador Wallace received a letter the morning of January 10th from Mr. Dervis, which acknowledged Ambassador Wallace's request to examine UNDP's internal audit reports on DPRK and invited Ambassador Wallace to examine the internal audit reports on DPRK on site and in person. See para 10 for text of letter. End Summary.

4.(S) Below is the text (identities deleted/protected) of the UNDP internal e-mail, which indicates that UNDP consciously sought to continue to engage in hard currency transactions to accommodate the DPRK Government. Comment: Please limit circulation within U.S Government pending consultation with USUN in order to protect source. Note also that the grammatical/syntax errors in the text below reflect the precise words of the e-mail. End Comment. Begin e-mail text:

-Following our meeting last July 2005, as well as our communications in December 2005 in regard of the use of hard

currency vis-a-vis local currency, I have tried to follow the financial rules and regulations as well as UNDP SBAA with DPRK, but without any results.

-Still, after a year, the situation is that Government exclusively wants HARD currency, while we are piling GLOC contributions in KPW. What concerns me the most is that even tentative by myself to at least pay the Government institutions and individuals by EFT (bank transfer to their respective bank accounts), whereby minimizing CASH transactions-have failed. The Government and individuals wants CASH and wants it in hard currency. Salaries, overtime, local DSA, meal allowance, office maintenance, various bills, are being paid in full in hard currency (Euro), leaving us with no choice but to accumulate "un-wanted non-convertible KPW".

-Giving this situation-since last September 2005, (...) I raised the issue among all Operations Managers and Finance Officers of various Agencies in DPRK, and agreed in December 2005 to recommend to the UNCT (country team) that all agencies should go back and resume business according to the rules and regulations of the UN, which states that all local cost should be incurred in local currency.

-Now the bottom line for me (...) stands as following:

-Option One

-Keep the status quo, whereby continuing using Hard Currency, with an increasing GLOC account. Whereby going against the rules and regulations of the organizations and the Standard Basic Agreement. In this scenario I would appreciate an acknowledgment from Treasury/Accounts/Legal whereby it is OK for us to continue.

-Risks to UNDP: Organization might face audit problems.

-Option Two

-Change the status, whereby we respect the SBAA and UNDP financial Rules and Regulation. All payments in the country should be made in local currency. Explain to the government that both parties (us and the government) are (bound) by the SBAA and the UNDP rules and regulations.

-Risk to UNDP: Strong opposition and reaction from the DPRK Government. If Government reacts-UNDP should demand a written explanation and justification from the Government, and if need be SBAA should be amended on order to showcase future relations in the country.

-Would highly appreciate your attention and usual support and advise as to which option I should follow. End e-mail text.

5.(SBU) Per reftel D, on Friday January 5, 2007, following his letter to UNDP Administrator Dervis of December 22, Ambassador Wallace received three letters from UNDP (a cover letter from Administrator Dervis and two letters from Assistant Administrator Ad Melkert, responding to U.S. requests for information regarding UNDP's program in the DPRK and the Office of Audit and Performance Review (OAPR), respectively), and certain financial information regarding the UNDP program in the DPRK.

6.(SBU) Per reftel C and D, USUN obtained line-by-line budgets of the UNDP program in the DPRK, which consists of 52 projects, for the years 2004-2006, UNDP administrative budgets for its DPRK program for the years 2004-2006, summary information of OAPR's audit practices for the years 2002-2006 and an overview of the recommendations from the internal audits conducted on UNDP's DPRK office in the years 1999, 2001 and 2004.

7.(SBU) In response to the three letters received from UNDP on Friday evening, Ambassador Wallace sent a letter to Mr. Dervis on January 8th making specific requests for

clarification. See para 7 for text of letter.

8.(S) Mission has been informed by a usually reliable source that upon reading the letter from Ambassador Wallace, Mr. Dervis expressed anger at his staff in response to the information contained in the second paragraph, i.e. that UNDP apparently funded the travel of DPRK officials to the Executive Board Meeting, which was apparently unknown to Mr. Dervis.

9.(SBU) Below is the text of the letter sent from Ambassador Wallace to UNDP Administrator Dervis in response to and in clarification of Mr. Dervis' letters of January 5th. Begin letter text:

Dear Mr. Dervis,

-Thank you for the telephone discussion with your Chief of Staff, Tegegnwork Gettu, on Friday January 5, 2007. In our discussion Mr. Gettu confirmed that I would receive correspondence later in the day regarding UNDP programs in the DPRK. We also discussed the UNDP decision to not provide full copies of internal audit reports. Mr. Gettu indicated that UNDP would consider allowing me to review the internal audit reports on site and in person and that you would confirm this understanding. Please let me know when I may review UNDP internal audit reports on the DPRK on site and in person.

-Also in our call we discussed the UNDP sponsored (and paid for) business class travel of DPRK officials to New York this past weekend. Mr. Gettu indicated that he would look into this matter. At your earliest convenience please provide information as to:

- a. The identities of the DPRK officials and their official titles and responsibilities;
- b. The purpose of the visit;
- c. Their business schedules during their stay in New York City;
- d. The total cost of their visit to UNDP and the source of the payment of such funds;
- e. The UNDP rules and regulations that permit UNDP to provide travel (business class) and accommodation to these particular officials for the purpose of attending the Executive Board.

-As you promised in the call, I did receive three (3) letters from UNDP late Friday -- including a letter from you and two letters from Mr. Melkert - and certain financial information regarding the UNDP program in the DPRK. Thank you for the letter responses and the financial information. We are carefully examining the financial information and we will contact you with any questions or comments separately.

-As to your letter:

Is permission or authorization from the Executive Committee required in order for UNDP to share the internal audits of DPRK with Executive Board members? If so, please indicate what authority imposes this requirement. If there is a meeting of the Executive Committee to discuss UNDP Executive Board members' access to UNDP internal reports of the DPRK, please let me know the date of such meeting. While the United States Government (USG) understands the importance of permitting UNDP Executive Committee appropriate "management tools," the USG maintains that Executive Board members should have access to full and complete UNDP audit reports as they relate to the UNDP DPRK program. Please convey these sentiments to the Executive Committee.

-As to Mr. Melkert's letter on the UNDP program in DPRK and in response to my letters dated December 22, 2006 and January 4, 2007:

In the letter Mr. Melkert states that the UNDP Executive Board approves the "design" and "implementation" of UNDP

"Country Programmes" and that hard currency must be transferred in DPRK to effectuate the Programme. "(as long as the Board expects us to remain active in any country (in this case DPRK) a flow/exchange of hard currency is inevitable. This is in accordance with UNDP's Financial Regulations and Rules." We understand that UNDP normally requires that local expenditures on its field offices, including local staff salaries, are to be paid exclusively in local currency. Please provide the rules and/or administrative issuances that impose such a requirement.

-In addition, I would appreciate your providing me with the specific UNDP Executive Board action and/or minutes where the Executive Board specifically approved the DPRK Country Programme with any and all specific references to the payment of hard currency (US and/or Euro) in the DPRK (for e.g. local salaries and local procurement) and/or directly to the DPRK government. Finally, so that my Government can better understand UNDP's controlling authorities, please provide me with the specific UNDP Financial Regulations and Rules that permit the payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government.

-The USG does appreciate the information that you provided. Nonetheless and notwithstanding the statements contained in your letter, to date, in the various interactions between the US Mission to the UN and UNDP staff we have received inconsistent information on various fronts of inquiry. Your letter of January 5th also contains an apparent inconsistency from the statements made in our meeting of December 22nd.

-In our meeting of December 22nd you stated that the decision to make payments in hard currency (Euro) in the DPRK was made as a result of a waiver process personally signed off on by the UNDP Administrator. In your letter of January 5, 2006, you state that "the decision regarding the choice of currencies utilized is delegated to the Resident Representative. As a consequence no waiver procedure needs to be in place for the DPRK." What are the specific UNDP Financial Rules and Regulations that permit the delegation of any such authority of the Administrator to the Resident Representative to make payments in the DPRK and/or to the DPRK government in hard currency (US and/or Euro)? Moreover, I would appreciate you providing me copies of any such written delegation of authority to the DPRK Resident Representative.

-To better understand the waiver process please also provide me with copies of any and all documents (including e-mails, memos and/or international cables) that reflect the decision making process of the DPRK Resident Representative to permit payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government. Have any UNDP staff and/or other UN staff expressed concern that UNDP has been and continues to permit payment of hard currency (US and/or Euro) in the DPRK and/or directly to the DPRK government? If they have, please identify such concerns and provide any and all documents including e-mails, memos, and/or international cables that reflect such concern.

-Mr. Melkert's letter also addresses UNDP's document retention policy. Mr. Melkert states that "UNDP has a retention policy that requires accounting documents to be retained for a period of seven years after the finalization/approval of the document." (Emphasis added). For clarification and for your information my request to retain and preserve documents and materials related in any way to the UNDP program in DPRK was not limited to accounting documents. The request covered all documents and materials including such as but not limited to e-mails, written memos, and/or international cables.

-Again, please confirm that you will formally take action to retain and preserve any and all documents and materials (such as but not limited to e-mails, written memos and international cables) including but not limited to,

electronic media related in any way to UNDP's program in North Korea during last seven years. To the extent that you and or your immediate staff are aware of the destruction (including the erasure from electronic media) of any documents related to the UNDP program in DPRK, please provide us with a detailed description of your understanding.

-I will separately and more specifically respond to Mr. Melkert's January 5, 2007 letter regarding my letter of November 17, 2006 on the UNDP Office of Audit and Performance Review.

-I appreciate all of your help.

-Thank you for your attention to this matter. End letter text.

10.(SBU) Below is the text of the letter received by Ambassador Wallace from Mr. Dervis on the morning of January 10th, which addresses Ambassador Wallace's specific request to come and examine the internal audit reports on DPRK in site and in person. Begin letter text:

-Dear (Ambassador) Wallace,

-Thank you for your letter of 8 January 2007, which I just received. We will carefully look into the content of your letter which covers a number of issues and we will respond accordingly.

-I would like to address your specific request to come and examine the internal audit reports on DPRK on site and in person. As stated before, I am consulting my UNDG colleagues on establishing a general approach to this type of request. In anticipation that your specific request can be met, and respecting the basis of maintaining confidentiality, we will provide you the opportunity for an on-site examination of the documents. UNDP is, on an exceptional basis, adopting this approach on a voluntary basis and with the full preservation of privileges and immunities.

-Please let us know when you would like to come and examine the reports. End letter text.  
WOLFF